Minutes of the Special Meeting  
Held June 30, 2011 at 10:00 AM in the George Washington Ballroom of the War Memorial  
1 Memorial Drive, Trenton, New Jersey

Council Members in Attendance:  
Robert Grady, Chair (left meeting at 12:58 PM)  
Jeffrey Oram  
Timothy McGuckin  
James Hanson, II  
James P. Marketti  
Guy Haselmann  
Brendan Thomas Byrne, Jr.  
James Kellogg

The Special Meeting was called to order by Chair Grady at 10:17 AM.

Roll Call and Meeting Notice
Secretary Adams performed roll call and reported that notice of the Special Meeting scheduled for June 30, 2011 was posted on the Division’s website on June 8, 2011. A revised notice was posted to the Division’s public website and sent via facsimile to the Times of Trenton, the Star-Ledger, the Bergen Record, the Courier Post and emailed to the Secretary of State on June 22, 2011. A copy of the notice was posted at the Division and is on file.

Chair Grady commented on the passage of the pension and health benefit legislation and its effect on the composition of the Council. He advised the Council and audience that he was hopeful that there would be a full complement of members in time for the next Council meeting.

Chair Grady also acknowledged that Secretary Adams was moving on to a new opportunity and thanked her for her service to the Division and the Council. Chair Grady also introduced and welcomed new Council member James Hanson.

Council Member Kellogg opined that there should be greater diversity on the Council from a gender and geographical perspective.

Approval of Minutes for Regular Meeting held March 24, 2011 and May 19, 2011
Chair Grady motioned to approve the March 24, 2011 minutes. The motion was seconded by Council Member Oram. All members voted in favor of the motion, except Council Member Hanson who abstained from the vote.

Chair Grady noted an error in the May 19, 2011 minutes, and motioned to approve the minutes as amended. Council Member Oram seconded the motion and all were in favor, except Council Member Hanson who abstained from the vote.

Approval of State Investment Council By-Laws
Chair Grady motioned to approve the by-laws, recognizing the need for the Division to make further amendments to be consistent with the membership and appointment language contained in the new legislation. Council Member Marketti stated that he was pleased that the new by-laws incorporated all
of the concerns of former Council Member Barrett. The motion was seconded by Council Member Oram. All members voted in favor of the motion.

Directors Report for April and May 2011
Director Walsh advised the Council that the Division took action to mitigate the effects of a market correction in the world equity and commodities markets so there was minimal impact to the portfolio. He advised the Council that the fund had a very good April and in May, the fund was behind the benchmark by only 33 basis points.

With respect to domestic equity, the portfolio is underweighted to the benchmark in the financial and technology sectors and overweighted to the benchmark in the industrial and material sectors. He advised the Council that the benchmark will be changing effective July 1 and would address this change in more detail later in the meeting. Director Walsh praised Brian Arena’s work in managing the domestic equity portfolio.

Deputy Director McDonough advised the Council that with respect to the international equity portfolio, developed markets outperformed emerging markets. Europe was the best performing region, with countries such as Finland having positive performance. Japan was the weakest performing country, only up about 10% for the fiscal year. However, Japan outperformed all other markets in June. On a sector basis, energy and materials were the best performing and technology and IT were the worst performing. Deputy Director McDonough also announced that a new localized REIT portfolio would be created and managed by Kathy Jassem. This portfolio would fall under the Real Assets category and would be in Common Pension Fund E. He advised the Council that the fixed income portfolio was also a positive performer in April and May, with the entire portfolio up approximately 2% each month.

Chair Grady asked for the approximate dividend yield for the Division’s top 100 domestic equity positions. Brian Arena stated that it was around 2.50-2.75% and tracked closely to the S&P 500.

Co-Head of Alternatives Maneck Kotwal told the Council that the hedge fund portfolio had outperformed the benchmark by over 300 points for the fiscal year through April 30. In the private equity portfolio, the internal IRR was 5.28% and there had been a reversal in the trend of having distributions outweighing contributions. The Division put $35 million to work in May. The commodities portfolio was up 35.5% for the fiscal year through May 31.

Chair Grady congratulated the Director and the Division for the positive fiscal year to date performance, with the portfolio up 18.2% over that period, especially given the Division’s conservative positioning. Council Member Marketti was pleased with the responsiveness of the Division in providing performance reports for months during which there was no Council meeting.

Council Member Oram commented on the state of the real estate market and advised the Council that the real estate portfolio’s negative performance could be attributed to the cyclical nature of the market and the timing of the portfolio’s development and initial investments, since the portfolio was created at the peak of the market.

Informational Presentation by Bridgewater
James Haskel and Joel Whidden of Bridgewater Associates made an informative presentation to the Council on their outlook for the global economy. They discussed topics such as monetary policy, risk allocation, and the problems facing developed and emerging markets. Council Members engaged in discussion with Mr. Haskel and Mr. Whidden about the presented issues and their potential effect for
the United States economy as well as the need for portfolio diversification to lessen any downside impact. A copy of the presentation is on file in the Division.

**Private Equity Investments**

**GSO Mezzanine Fund II**
Harshal Shah of SIS presented the proposed $150 million investment in GSO Capital Opportunities Fund II to the Council. He advised the Council that it is the best performing fund in the mezzanine space with a net IRR of 16%. The net expected IRR for a mezzanine fund is approximately 9-10%. Council Member Hanson had several questions regarding the terms of the deal, which were answered by Mr. Shah. Chair Grady informed the Council that the Investment Policy Committee had discussed this investment and found the Division’s due diligence to be adequate and appropriate. He also lauded the Division for its commitment to investing with top quartile private equity managers. Council Member Marketti went on record as being opposed to the investment.

**Venture Capital Presentation**
Harshal Shah gave a brief overview of the venture capital presentation prepared for the Council by SIS. Chair Grady stated that more than 10% of the current private sector workforce was employed by companies that were started with venture capital, such as Federal Express, Cisco Systems and Home Depot. He advised the Council that the Division’s proposed $300 million commitment to venture capital investments was not particularly risky and the proposed new commitment was only about 4/10% of the entire pension fund portfolio. The Chairman also noted that the $200 million currently allocated to Venture Capital represented only about 3% of the entire private equity portfolio. Chair Grady also noted that it was a good time to enter the venture capital market given the historical timing of market cycles.

**Khosla Ventures IV**
Harshal Shah of SIS presented the proposed $25 million investment in Khosla Ventures IV Fund to the Council. He advised the Council that this proposed investment is the first to invest directly into high quality venture funds. The fund will focus on IT and clean technology. There will be a 10% General Partner commitment. Chair Grady informed the Council that the founders of Khosla Ventures are very highly regarded in the venture capital world. He also informed the Council that the Investment Policy Committee had discussed this investment and found the Division’s due diligence to be adequate and appropriate. Council Member Kellogg said he wanted the Division to seek hurdle rates whenever possible, particularly when the Division pays more than a 20% carry rate because both the Division and the fund expect high returns and they should not say they want a high carry even for low returns. Council Member Marketti went on record as being opposed to the investment. Chair Grady noted hurdle rates are not common or standard in the Venture Capital industry, especially among the top quartile funds. Chair Grady further reminded the Council that it is our policy to only invest in top quartile funds.

**Real Asset Investments**

**Astenbeck Commodities Fund II**
Dan Stern of Cliffwater presented the proposed $100 million investment in Astenbeck Commodities Fund II to the Council. He advised the Council that this is a commodities fund with a hedge fund structure. The fund will primarily invest in oil and metals, with the remainder of the fund invested in other commodity linked equities. Chair Grady informed the Council that the Investment Policy Committee had discussed this investment and found the Division’s due diligence to be adequate and appropriate. Council Member Haselmann inquired on the existence of a “key man” provision for Andrew Hall. Dan Stern and Maneck Kotwal advised that the Division would be requesting a key man
provision to be included in the side letter to the limited partnership agreement. Council Member Marketti went on record as abstaining from commodities investments.

**Hedge Fund Investments**

**Canyon Balanced Fund**

Dan Stern of Cliffwater presented the proposed $125 million investment in Canyon Balanced Fund to the Council. The Division had invested in two other Canyon funds, the Canyon Value Realization Fund and the Canyon Special Opportunities Fund. These funds generated returns of 31.6% and 23.2% respectively from inception to April 30, 2011. Chair Grady informed the Council that the Investment Policy Committee had discussed this investment and found the Division’s due diligence to be adequate and appropriate. Council Member Marketti went on record as being opposed to this investment.

**Approval of limitation exception on RLJ Lodging Trust**

Director Walsh advised the Council that the Division was seeking a short term exception to the 5% ownership limitation with regard to RLJ Lodging Trust. The Division received a number of shares allocated in an IPO, which represented approximately 5.1% of RLJ Lodging Trust’s outstanding shares. However, the shares are subject to a Lock-Up Agreement, which limits sale or transfer of the shares for 180 days and Council approval is needed to hold the shares exceeding the limitation until the end of the lock-up period. The 130,000 shares in excess of the limitation are valued at approximately $2.5 million. Chair Grady motioned to approve the Division’s holding of the additional shares until the end of the lock-up period and Council Member Oram seconded the motion. All Council Members voted in favor of the motion.

**Approval of Proposed Amendments to N.J.A.C. 17:16-62 (Common Pension Fund A), 63 (Common Pension Fund B), 67 (Common Pension Fund D), and 69 (Common Pension Fund E)**

Director of Operations Susan Sarnowski advised the Council that the Division is proposing several amendments to the regulations to update outdated and burdensome procedures and provide for the calculation of a daily net asset value (NAV), which will allow the Division to maintain lower cash balances and invest funds throughout the entire month. Chair Grady motioned to approve the resolution adopting the proposed amendments for publication and Council Member Haselmann seconded the motion. All Council Members voted in favor of the motion.

**Update on Placement Agents**

Director Walsh informed the Council that certain provisions in the Placement Agent policy had been overlooked on several investments since October 2010. However, Division staff determined that the placement agents and their representatives met the registration, licensing and experience requirements set forth in the Policy and that all requirements of the Policy have been met. He reassured the Council that staff will be more diligent in the execution and oversight of this policy. Chair Grady commented that the entities on the list were all well-known placement agents and confirmed that the Division will follow the disclosure policy in the future. Chairman Grady also thanked Director Walsh for advising the Council regarding this issue.

**Approval of revised policy benchmark**

Deputy Director McDonough presented the proposed Total Fund Policy Benchmark to the Council in anticipation of the FY2012 target asset allocation. The proposal included the assignment of a benchmark to each of the five asset classes in the new asset allocation plan and each of these component benchmarks are weighted to create the total fund benchmark. Chair Grady motioned to approve the implementation of the revised policy benchmark and Council Member Haselmann seconded the motion. All Council Members voted in favor of the motion.
Treasurer’s Report
Assistant State Treasurer Chris Jeter was in attendance at the meeting and advised the Council that the Governor was committing to make a payment to the pension fund of $480 million. The last payment to the pension fund was in 2009 for $106 million. Although this amount was less than previous estimate of $571 million, the Governor had not ruled out making a second payment to the fund at some point during FY2012 dependent on the State’s fiscal condition.

Opportunity for Public Comment
Secretary Adams advised Chair Grady that there were two registered speakers for this meeting: Rae Roeder and Anthony Miskowski.

Ms. Roeder advised the Council that CWA Local 1033 had filed suit in U.S. District Court, contesting the constitutionality of the newly enacted pension reform legislation on two points: the cessation of cost-of-living increases and the insufficiency of the “1/7” payment plan to sufficiently fund the pension fund.

Mr. Miskowski expressed concern about the actuarial assumption rate and proposed lowering the rate.

Council Member Byrne stated that although the Council has no role to set the assumption rate, the general sense is that the return assumptions have been too high across the country. Council Member Byrne requested that the authoritative process for setting the actuarial assumption rate be disclosed at the Council’s next meeting.

Council Member Haselmann motioned to adjourn the meeting, with Council Member Oram seconding the motion. All voted in favor. The meeting was adjourned at 1:04 pm.

Respectfully submitted,

Christine J. Eckel

Christine J. Eckel
Secretary to the Council